IDAHO FORECAST DESCRIPTION
The Forecast Period is the Second Quarter of 1999 to the Fourth Quarter of 2003

Idaho's economy is forecast to shift into a lower gear. The eleven-year period from 1987 to 1998 has been one of the state's most prosperous economic expansions. A look at a short list of key economic measures chronicles this strength. During these years the total number of nonfarm jobs rose from just over 333,000 to 521,574, an average annual increase of 4.2%. Idaho real personal income rose at a 4.0% annual pace, going from $14.9 billion in 1987 to $23.0 billion in 1998. Idaho real nonfarm personal income grew at a slightly faster 4.2% rate. One of the biggest success stories this decade has been housing. In 1988, just over 3,300 homes were started statewide. There were nearly 12,800 starts when the housing cycle peaked in 1994. Since then annual starts have remained in the 9,000-10,000 range. The major beneficiary of the surging housing industry was construction employment, whose numbers more than doubled from 1988 to 1998. Fueling the demand for housing was the flood of new residents moving into Idaho. Viewed as a haven from tougher economic times somewhere else, the Gem State's population rose three times faster than the U.S. population in some years. The national boom in business investment also helped Idaho high-tech employment surge making this the state's largest employer in the manufacturing sector.

It appears Idaho's span of unusually strong economic growth has run its course. Early evidence suggests that nonfarm employment growth slowed after the first half of 1999. Idaho Department of Labor statistics show that August 1999 Idaho nonfarm employment was just 1.5% higher than in August 1998. Looking beyond this summer, nonfarm employment is expected to rise by just over 2.0% in each year of the forecast. In contrast, during the height of the current expansion, employment growth never fell below 3.0% in any year. One engine of growth that will be missed is construction employment. It is expected to be flat given that housing starts should hover near 10,000. Like construction, mining employment should remain stable. After stumbling this year, manufacturing employment is forecast to gradually pick up speed. On the other hand, services-related employment growth should taper off over the next few years. Both Idaho real total personal and real nonfarm personal incomes should advance an average of 3.4% per year. As the gap between Idaho's economic performance and that of the nation's narrows, net migration into the state should slow. Absent this source of growth, Idaho's population growth will slow from 1998's 1.7% to 1.3% in 2003.

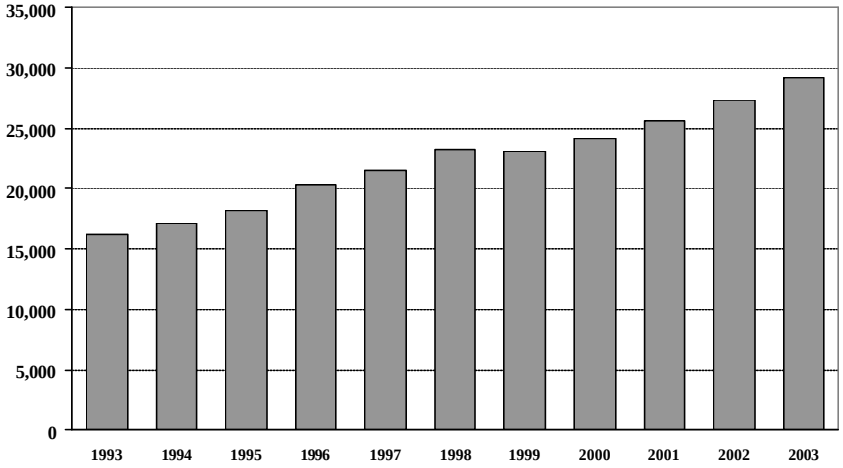
While the anticipated slowdown at the end of this decade may create nostalgia for its performance at the beginning of the 1990s, it should be pointed out that Idaho's economy is nowhere near dire straits. Indeed, although the gap between Idaho's and the nation's economic performances will narrow, Idaho is expected to outperform the U.S. economy over the next few years. For example, Idaho nonfarm employment growth is projected to rise an average of 2.2% over the forecast period. During this same time U.S. nonfarm employment is expected to average just 1.3% annually. Gem State real total and nonfarm personal incomes are anticipated to advance an average of 3.4% per year versus U.S. real personal income growth of 2.7%. Thus, although the Idaho economy should slow down, it is expected to remain healthy over the forecast period.

SELECTED IDAHO ECONOMIC INDICATORS

Electrical and Nonelectrical Machinery: There are a few signs that the storm that has clouded Idaho's high-tech sector is breaking up. The impact of this improvement will most likely be felt by Micron Technology, a world-class producer of computer memory products. This company's profits soared in the mid-1990s thanks to a fruitful combination of solid memory prices and continued manufacturing improvements that dropped production costs. Encouraged by its strong showing, the

company undertook an aggressive expansion that included a $2.5 billion manufacturing facility in Lehi, Utah. Unfortunately, the run of strong returns was short lived. As a result, the company took measures to lower its costs, which included delaying the opening of the Lehi plant. This downturn has lasted longer than most had anticipated. According to a Micron Technology press release, the price per megabit of memory declined 75% in its 1997 fiscal year, 60% in fiscal 1998, and 40% in fiscal 1999. Despite these declines, the company was able to avoid the layoffs that Micron saw (half its work force) in the mid-1980s. One of the reasons the current slump has been so protracted is because worldwide memory manufacturing capacity has grown exponentially. For example, dynamic random access memory (DRAM) capacity in Taiwan increased from 5,000 wafers per month in 1992 to 180,000 wafers per month in 1999. Interestingly, Micron and Taiwanese companies have accused each other of dumping. Another factor that has hurt prices is the slump in demand caused by the Asian financial crises. It appears that many Asian countries' economies are on the mend (with the notable exception of Japan), and there have been some signs that demand is picking back up. Even more promising is the fact that memory prices have recently shown signs of strengthening. While this is welcome news, many experts consider it too early to determine whether these higher prices will stick. This view is no doubt shaped by this industry's several false recoveries in recent years. It remains to be seen what impact, if any, the recent Taiwan earthquake will have on the industry. So far, it does not appear that it will have as large an impact as the Japanese epoxy plant fire in the mid-1990s. Hewlett-Packard is Boise's other high-tech giant. During the past few years the company transitioned the Boise plant away from manufacturing toward research and development. To that end, the company sold its LaserJet formatter board operations to Jabil Circuit, Inc. Virtually all of the employees involved with Hewlett-Packard's formatter operations transferred to Jabil. Jabil's operations are temporarily housed at the Hewlett-Packard plant until their Treasure Valley facility is completed. Idaho electrical and nonelectrical manufacturing employment is expected to decline 1.0% in 1999, then rise 4.7% in 2000, 6.1% in 2001, 6.5% in 2002, and 6.8% in 2003.

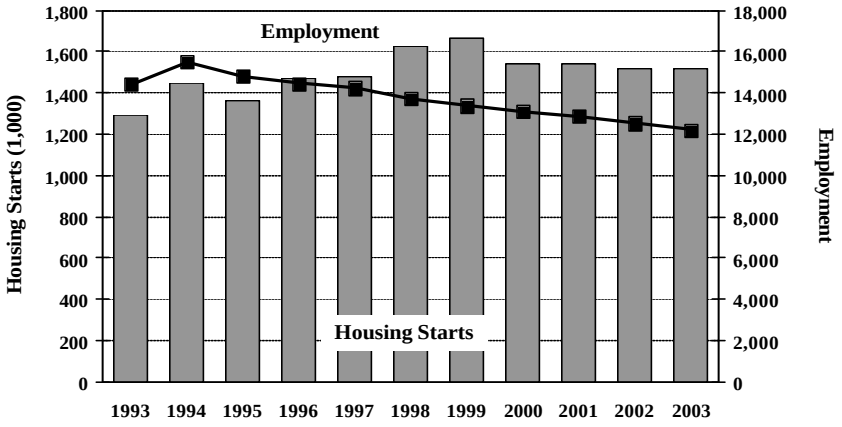
Idaho Electrical & Nonelectrical Employment



Lumber and Wood Products: Idaho lumber and wood products employment is expected to continue the slide that began in 1994. The last five years have been tough for this industry that had once been the state's largest durable manufacturing employer. This sector most recently peaked at around 15,500 jobs in 1993. From then to 1998, nearly 1,800 positions were lost. Last year alone payrolls dropped by 500 workers. Many of 1998's losses resulted from mill closures. About 40 positions were lost when Boise Cascade closed its Horseshoe Bend Mill in the fall of 1998. About 50 workers lost their jobs when the Gem State Lumber Company Mill was salvaged. In November 1998, Crown Pacific announced that it would close its Colburn, Idaho sawmill in January 1999. Nearly 100 workers were affected by the closure. These declines were especially disappointing given the strong U.S. housing market last year. There were 1.62 million housing starts in the U.S. last year, which was a 10% improvement over 1997 and the strongest showing since 1987. Not surprisingly, U.S. consumption of softwood lumber and structural panels set new records during 1998, at 52.8 billion board feet and 35.2 billion square feet, respectively. Lumber prices usually mirror housing demand, but they actually fell last year. This

paradox—record consumption and declining prices—can be explained by looking closely at export markets. U.S. exports last year totaled just over a billion board feet, which was down 31% from 1997 and roughly half its 1994 level. Canadian overseas exports dropped 25% last year. The weakness in export markets reflected plunging demand in Asia. The natural consequence of reduced Asian demand was a North American market awash in supply—and prices declined accordingly. The recoveries in many of the smaller Asian countries have raised hopes of stronger prices. However, with the industry already geared up to produce 20-25% more lumber than is being consumed in North America and Asia, prices will remain under pressure. Thus this sector's short-term outlook is dim. Unfortunately, neither does its prospects improve with time. In the long term, its future is limited by the dwindling supply of timber from public lands. The Northwest has traditionally been dependent on timber from federal forests. In recent years the supply of logs from these public lands has fallen. The uncertainty of the public timber supply should limit future investment and further dampen employment in the Gem State's lumber and wood products sector. Gem State lumber and wood products employment should slide 2.5% this year, 2.1% next year, 1.8% in 2001, 2.7% in 2002, and 2.5% in 2003.

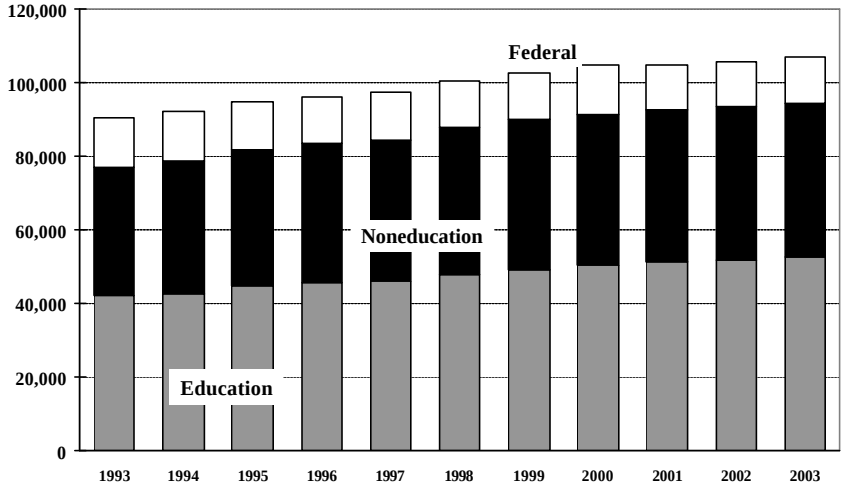
Idaho Lumber & Wood Products
Employment and U.S. Housing Starts



Sources: Standard and Poor's DRI and DFM

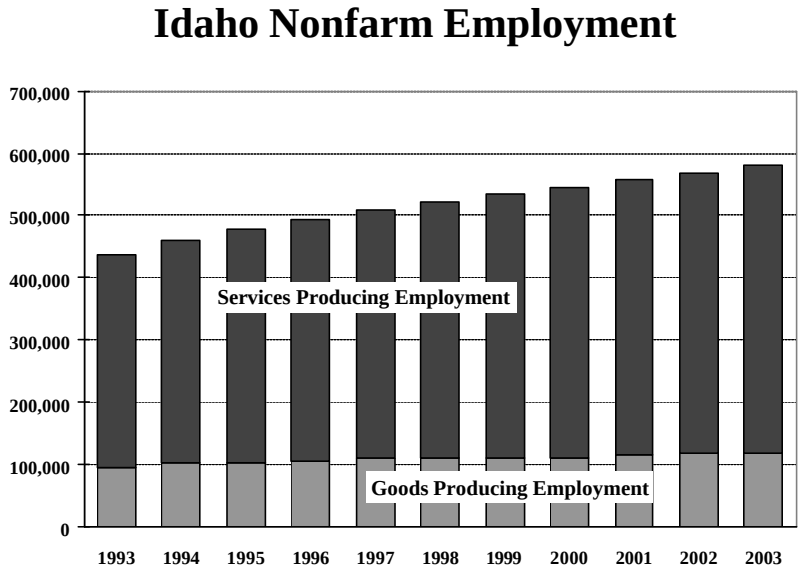
Federal, State, and Local Governments: The outlook for government employment in Idaho has changed little since the last forecast. The bottom line is that the number of federal jobs is expected to fall. Employment in state and local governments should continue expanding, but at much slower paces than they experienced at the beginning of this decade. As was mentioned above, federal government employment in Idaho is expected to decline from 12,662 in 1999 to 12,378 in 2003. This reflects the impact of federal austerity measures. The one exception to this will be during the first half of 2000 when federal payrolls rise with the hiring of temporary census workers in Idaho. Slowing Idaho population and economic growth point to lower state and local government employment growth. Idaho state and local employment combined advanced over 3.5% annually during the first half of this decade, which was more than twice the national average. During this same period, the Gem State's population grew as much as three times as fast as the U.S. population and its economic growth eclipsed its national counterpart. Both population and economic growth should be cooler in the second half of the 1990s. Thus, without these two drivers,

Idaho Government Employment



state and local government employment growth should ease. Employment growth will also be affected by state laws that limit the growth of local government budgets. Idaho state and local employment is forecast to rise 2.4% in 1999, 1.6% in 2000, 1.2% in 2001, 1.1% in 2002, and 1.0% in 2003.

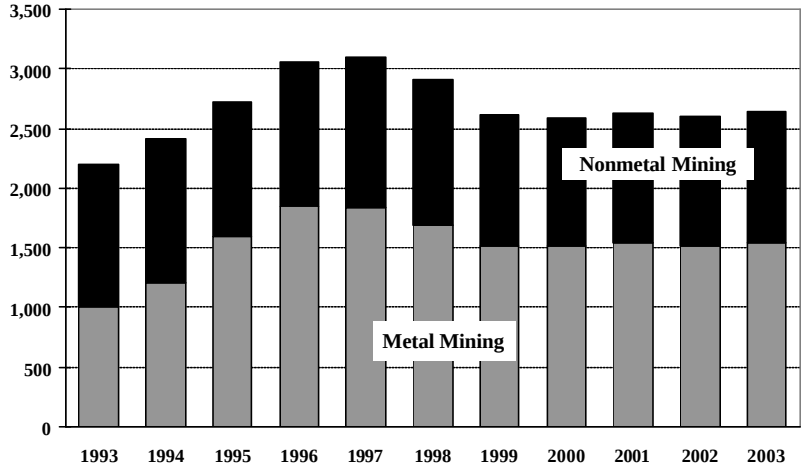
Services-Producing Industries: The state's largest and most diverse employment category is services-producing industries. It accounts for about 410,000 jobs, or about 8 out of every 10 nonfarm jobs. This category covers a wide spectrum of industries. Specifically, it includes finance, insurance, and real estate; transportation, communications, and public utilities; trade; services; and government. Even when government employment is taken out of the services-producing mix, what remains still accounts for 62% of all jobs. Not only is this sector huge, it has been an important growth engine. For example, over the decade from 1988 to 1998 Idaho services-producing employment accounted for about 80% of the total job gain. This growth occurred because of favorable cyclical and structural factors. One of the most significant factors has been the increasing number of women in the labor force. This has increased the demand for a wide range of goods and services, such as childcare and meals away from home. Another change agent has been the growing number of single-person and single-parent households; due partly to the increasing number of persons delaying their first marriages and the greater number of divorced persons. In the future, the aging baby-boom generation increases the demand for services for the aged. In addition, this generation of older persons will probably be healthier than previous generations and will demand more recreational/leisure services. Structural changes will also include the way businesses operate. With the onset of the information economy, companies have more flexibility in locating their operations. They are less tied to locating near their customer base, and can move to an area with a highly productive work force. Two examples of this are the Sears Regional Credit Center and the MCI Call Center. The communications component of service-related employment has gained from the opening of new call centers by GTE and US West. Ironically, manufacturing changes have also helped service employment. Instead of taking on new employees to meet peak production, many manufacturers now hire temporary workers from employment agencies. Since these persons are employees of the employment agency, they are classified as service employees even though they are performing manufacturing tasks. Trade sector employment has gained from the construction of several regional malls that not only cater to local customers but also attract out-of-state shoppers. It should be pointed out that non-economic factors also affect employment levels. For example, there has been a significant drop in the finance, insurance, and real estate category in 1998 compared to the previous year because the U.S. Bureau of Labor Statistics determined that 3,600 of the Idaho jobs reported as noncovered real estate should be classified as self-employed. This explains the nearly 10% employment drop from 1997 to 1998. Overall, services-producing employment is projected to increase 3.0% in 1999, 2.6% in 2000, 2.0% in 2001, 2.1% in 2002, and 2.2% in 2003.



Mining: After taking a 10% hit in 1999, Idaho mining employment is expected to remain relatively stable in the remaining years of the forecast. One of the trademarks of the current decline is how widespread it is. Despite a booming national economy, metal prices have suffered due in large part to the Asian economic crises. Lower demand has created a deflationary spiral for many metals. These

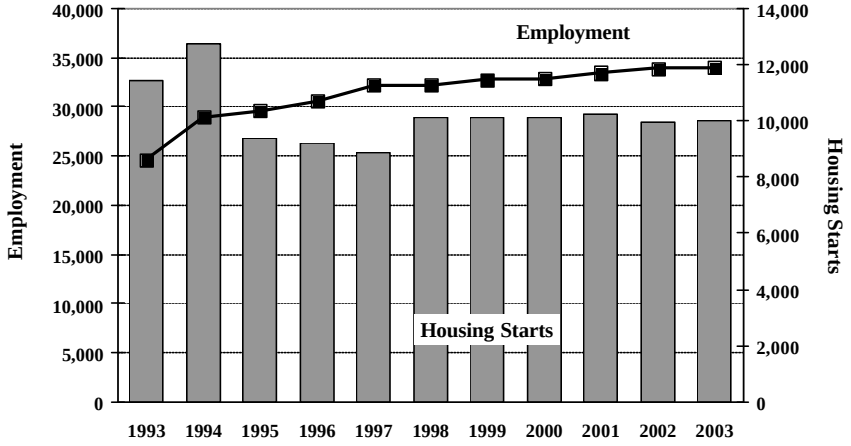
declines have been felt by producers around the world. For example, lower prices contributed to the decision to cut production and lay off 75 of the 250 employees at the Thompson Creek molybdenum mine and mill in Custer County. The Delemar Mine in Owyhee County fell victim to low gold prices. Given current conditions it may seem hard to believe that things should stabilize, but several factors suggest this indeed is possible. First, the Asian economic crisis is showing signs that it has bottomed out and this should halt the deflationary spiral, which will aid metal prices. Second, European central banks announced recently that they would not dump gold onto the market. In response to this announcement the price of gold topped $300 per ounce. Silver prices have also moved upward slightly. Third, many operations in Idaho have cut employment to the point where further large reductions do not seem possible. Mining employment will also be affected by the winding down of Meridian Gold's Beartrack Mine in Lemhi County. The number of workers at the mine will shrink from the current 150 to about 15 to 25 employees by the first quarter of 2001. The biggest cuts will take place in the middle of next year, when the company plans to reduce employment by 60% to 70%. Metal mining is not the only category to face challenges. In addition to the slowing economy, nonmetal mining employment will suffer under the additional weight of construction and agricultural problems. The expected flattening of the construction industry will hurt certain nonmetal mining sectors, such as rock quarrying, sand, and gravel. Agricultural woes will probably result in shrinking acreage and a reduction of fertilizer demand and, thus, production. This will affect companies in Southeast Idaho where phosphorus ore is mined and fertilizer is manufactured. Mining employment should hover between 2,600 and 2,650 over the forecast period.

Idaho Mining Employment



Construction: Employment growth in Idaho's construction sector is forecast to cool significantly over the forecast period. This marks a notable change from the early 1990s when this sector's employment regularly posted double-digit annual gains. While construction employment gains peaked in the 1990s, the seeds of its recovery go back further to the 1980s. In 1983, construction employment was just above 13,000. It took off briefly to about 15,000 in 1985, but retreated to 13,721 in 1987. In 1988, the current recovery

Idaho Construction Employment and Housing Starts



took off in earnest. It started slowly at first, growing by just 3.5% in 1988. Interestingly, unlike most construction recoveries, it was fueled by the commercial sector instead of the residential sector. Indeed, in the year when the employment recovery was showing its first signs of life, Idaho housing starts actually fell 2.2%. But housing joined the growth bandwagon soon after. Idaho housing starts increased an astounding 40.2% from 1988 to 1989 in what would become the first in a series of six straight years of double-digit growth. There were over 12,700 housing starts when the run ended in 1994, which was nearly four times more than 1988's 3,334 starts. The boom resulted from Idaho's strong population growth during that period. The Gem State was one of the nation's strongest economies during that period, and attracted thousands of newcomers into the state. This was a reversal from the early and mid-1980s when more people left the state than entered it. The strong net in-migration caused Idaho's population to shift from growing slower than the national rate in 1989 to growing three times the national rate in 1994. Because of the dearth of housing starts in the early 1980s, the construction industry found itself in catch-up mode during most of the boom period. This helps explain why there was no serious housing inventory overhang despite the robust growth. Housing starts did drop 26.7% in 1995. However, this was more of a realignment to more sustainable growth levels than a housing market collapse. Keep in mind that 9,360 units in 1995 were still almost three times the number of housing starts in 1988. It should also be noted that while housing starts fell in 1995, construction employment continued to grow thanks to the strong nonresidential building sector in that year. Since 1995, construction employment levels have hovered near 32,000, which is more than twice as high as in 1987. Construction employment is forecast to grow slowly from 32,809 in 1999 to 33,926 in 2003.